

Report of the auditor-general to the Northern Cape Provincial Legislature and the council on the Ubuntu Local Municipality

Report on the financial statements

Introduction

1. I was engaged to audit the financial statements of the Ubuntu Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. The municipality calculated the depreciation of several items of property, plant and equipment incorrectly; differences were identified between the auditor's recalculated depreciation and the depreciation calculated by the municipality. Consequently, property, plant and equipment were understated by R 10 058 355 and accumulated depreciation

and depreciation was overstated by the same amount.

5. The municipality did not review the residual values and useful lives of property, plant and equipment at each reporting date in accordance with GRAP 17, Property, plant and equipment. In addition, the municipality did not assess at each reporting date whether there is any indication that property, plant and equipment may be impaired in accordance with GRAP 26 Impairment of cash-generating assets. I was not able to determine the impact on the net carrying amount of property, plant and equipment stated at R123 161 313 (2015: R 132 014 586).
6. The municipality did not have adequate systems in place to account for infrastructure assets, as I was unable to verify some of the assets. I was unable to confirm these amounts disclosed by alternative means. Additionally I could not trace several of the assets to the asset register. Consequently, I was unable to determine whether any adjustment relating to infrastructure assets stated at R 104 998 6696 was necessary.
7. During 2015, I was unable to obtain sufficient appropriate audit evidence regarding additions of infrastructure assets, as supporting documentation was not provided. I was unable to confirm additions of infrastructure assets by alternative means. Consequently, I was unable to determine whether any adjustment relating to additions of infrastructure assets stated at R10 460 156 in the financial statements was necessary.

Receivables from non-exchange transactions

8. I was unable to obtain sufficient appropriate audit evidence regarding receivables from fines and related provision for doubtful debts for the current and prior year due to the status of the accounting records and non-submission of the supporting documentation. Furthermore the respective provision for doubtful debts were only accounted for in the general ledger but not disclosed in the financial statements. I was unable to confirm the receivables from non-exchange transactions and the related provision by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables from non-exchange transactions stated at R94 400 021 (2015: R R94 400 021) and the related provision stated at R72 546 151 (2015:R72 546 151) in note 14 to the financial statements was necessary.
9. I was unable to obtain sufficient appropriate audit evidence regarding the rebates on service rates and taxes receivables from non-exchange transactions as the listing provided by the municipality did not agree to the financial statements. Furthermore the respective provision for doubtful debts were only accounted for in the general ledger but not disclosed in the financial statements. I was unable to confirm the valuation of the receivables and the reclassification of the prior period figures by alternative means. Consequently, I was unable to determine whether any adjustment relating to receivables from non-exchange transactions as stated at R 25 800 295(2015: R 13 261 562) and the related provision stated at R 7 751929 (2015: R 9 291 898) in the financial statements was necessary.

10. I was unable to obtain sufficient appropriate audit evidence regarding consumer debtors – other as the municipality did not have adequate systems to maintain records for the consumer debtors. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer debtors - other stated at R907 186 in note 14 to the financial statements was necessary.

Revenue from non-exchange transactions

11. There were differences between the valuation roll and the valuation on the municipality's system. I was not able to determine the impact on the amount of property rates stated at R 9 435 379 in note 30 in the financial statements.
12. The municipality did not measure government grant and subsidies revenue in accordance with GRAP 23, Revenue from non-exchange transactions as the municipality recorded the amount that was actually received, without taking into account the revenue that was withheld. Consequently, equitable share was understated R10 605 000.
13. I was unable to obtain sufficient appropriate audit evidence for the reclassification of the corresponding figures for revenue from non-exchange transactions as described in note 47 to the financial statements. The reclassification could not be substantiated by supporting audit evidence. I was unable to confirm the reclassification by alternative means. Consequently, I was unable to determine whether any adjustment to the revenue from non-exchange transactions figures stated at R39 025 315 in the financial statements was necessary.
14. I was unable to obtain sufficient appropriate audit evidence for revenue from fines for current and prior year as the municipality did not have adequate systems to maintain records of fines. I could not confirm the revenue from fines by alternative means. Consequently, I was unable to determine whether any adjustment to the revenue from fines stated at R 749 939 (2015: R 49 370 974) in the financial statements was necessary.

Receivables from exchange transactions

15. I was unable to obtain sufficient appropriate audit evidence regarding receivables from exchange transactions as the listing provided by the municipality did not agree to the financial statements. In addition, the municipality did not have adequate systems in place to maintain complete records of receivables from exchange transactions. Due to lack of systems I was unable to determine whether any further adjustment to receivables from exchange transactions as stated at R 47 955 056 (2015: R 45 897 013) and the related provision stated at R 44 192 334 (R 41 660 426) in note 13 & 15 to the financial statements was necessary.

Revenue from exchange transactions

16. The municipality did not calculate interest on consumer debtors correctly due to the status of the accounting records. Consequently interest received (trading) and receivables from exchange and non-exchange transactions was understated by R2 044 495.
17. I was unable to obtain sufficient appropriate audit evidence for licences and permits, other income and rental of facilities and equipment due to the status of the accounting records and non-submission of supporting documentation. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments to licences and permits, other income and rental of facilities and equipment stated at R 1 178 476 (2015: 1 856 727) to the financial statements were necessary.
18. The municipality did not disclose all items of revenue from exchange transaction in accordance with GRAP 9, revenue from exchange transactions. I was unable to obtain sufficient appropriate audit evidence for service charges due to the status of the accounting records and non-submission of supporting documentation. In addition customers' accounts from the valuation roll could not be agreed to the billing system. I was unable to confirm the amount disclosed by alternative means. Consequently, I was unable to determine whether any adjustments to service charges stated at R17 067 080, in note 26 to the financial statements were necessary.
19. During 2015, I was unable to obtain sufficient appropriate audit evidence regarding the rebate on service charges as the municipality did not provide a list of all people that qualify to be indigents. I was unable to confirm rebates relating to indigents by alternative means. Consequently I was unable to determine whether any adjustments relating to rebates on service charges stated at R3 749 381 in the financial statements was necessary.

Payables from exchange transactions

20. I was unable to obtain sufficient appropriate audit evidence regarding trade payables as the municipality did not have adequate systems to maintain records for trade payables. I was unable to confirm the amount disclosed and the reclassification of the prior period figures by alternative means. Consequently, I was unable to determine whether any adjustments relating to trade payables stated at R 21 286 564 (2015: R 22 752 682) in note 22 to the financial statements was necessary.

Expenditure

21. The financial statements of the municipality were materially misstated as the municipality did not record the expenditure on accrual basis as required by GRAP1. The effect on the financial statements was that audit fees and bulk purchases, were overstated by

R9 262 767. Additionally, there was a resultant impact on trade payables in current year with the same amount.

22. The municipality did not have adequate systems in place to account for general expenditure, as the municipality have included their own charge in respect of water, electricity, refuse and sewerage, which resulted in expenditure being misstated by R1 771 967. In addition, I was unable to obtain sufficient appropriate audit evidence regarding general expenditure as supporting documentation for this expenditure was not provided. I was unable to confirm these amounts disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to expenditure stated at R 26 588 706 was necessary.
23. During 2015, I was unable to obtain sufficient appropriate audit evidence regarding repairs and maintenance, operating grant expenditure and general expenditure as supporting documentation for expenditure was not provided. I was unable to confirm operating expenditure by alternative means. Consequently I was unable to determine whether any adjustment relating to the items listed above as included under expenditure and stated at R11 012 302 in the financial statements was necessary.
24. I was unable to obtain sufficient appropriate audit evidence for the reclassification of the corresponding figures for general expenses, operating expenditure and lease rentals on operating lease as described in note 47 to the financial statements. The reclassification could not be substantiated by supporting audit evidence. I was unable to confirm the reclassification by alternative means. Consequently, I was unable to determine whether any adjustment to the general expenses, operating expenditure and lease rentals on operating lease figures stated at R9 269 175 in the financial statements was necessary.
25. Differences were identified between the amount in the general ledger and the amounts disclosed in the financial statements. I was unable to confirm these amounts disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to employee related costs stated at R 29 451 743 in note 32 was necessary.
26. The municipality did not have adequate systems in place to account for employee related cost, as there were differences between the actual salaries paid to councillors and the salaries as prescribed by the government gazette. I was unable to confirm these amounts disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to remuneration of councillors stated at R 2 747 656 in note 33 was necessary. I was not able to determine the impact on the related party disclosure as it was impracticable to do so.
27. I was unable to obtain sufficient appropriate audit evidence for the reclassification of the employee related costs as described in note 47 to the financial statements. The reclassification could not be substantiated by supporting audit evidence. I was unable to confirm the reclassification by alternative means. Consequently, I was unable to determine whether any adjustment to the employee

related costs figures stated at R27 127 082 in the financial statements was necessary.

Unspent conditional grants and receipts

28. I was unable to obtain sufficient appropriate audit evidence for unspent conditional grants and receipts, due to the status of the accounting records and non-submission of supporting documentation. I was unable to confirm these amounts disclosed by alternative means. Consequently, I was unable to determine whether any adjustment relating to unspent conditional grants and receipts stated at R 10 308527 in note 19 of the financial statements was necessary. I was not able to determine the impact on both the revenue from non-exchange transaction and expenditure as it was impracticable to do so.
29. I was unable to obtain sufficient appropriate audit evidence for the reclassification of the unspent conditional grants and receipts as described in note 47 to the financial statements. The reclassification could not be substantiated by supporting audit evidence. I was unable to confirm the reclassification by alternative means. Consequently, I was unable to determine whether any adjustment to the unspent conditional grants and receipts figures stated at R2 033 739 in the financial statements was necessary.

Commitments

30. I was unable to obtain sufficient appropriate audit evidence for the commitments for current year as the municipality did not have adequate systems to maintain records of commitments. In addition there was a material variance between the annual financial statements and commitments listing of R2 831 128. I could not confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustment to the commitments stated at R 6 351 390 in note 44 to the financial statements was necessary.

Irregular expenditure

31. The municipality did not have adequate systems in place to account for all the irregular expenditure that have been incurred in the current year, as the financial statements did not disclose all the irregular expenditure of the municipality. These transactions were in contravention to the supply chain management requirements. Consequently the irregular expenditure were understated by R9 585 518 (R 7 881 786).

Fruitless and Wasteful Expenditure

32. The municipality did not have adequate systems in place to account for all the fruitless and wasteful expenditure that have been incurred in the current year, as the financial statements did not disclose all the fruitless and wasteful expenditure of the municipality.

Fruitless and wasteful expenditure were understated by R2 180 519.

Contingent Liabilities

33. The municipality did not have adequate systems in place to account for all the contingent liabilities that have been incurred in the current year, as the financial statements did not disclose all the irregular expenditure of the municipality. Consequently the contingent liabilities were understated by R 5 316 716.

Aggregation of immaterial uncorrected misstatements

34. I was unable to obtain sufficient appropriate audit evidence regarding the following items included in the statement of financial position, which had a cumulative effect on the financial statements:

- Non-current liabilities of R 2 534 373 as included in the disclosed balance of R 8 566 925.

I was unable to confirm these items by alternative means. Consequently, I was unable to determine whether any adjustment to these items was necessary.

Disclaimer of opinion

35. Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matters

36. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

37. As disclosed in note 47 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Additional matters

38. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

39. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedule(s) and, accordingly, I do not express an opinion thereon.

Unaudited disclosure notes

40. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Report on other legal and regulatory requirements

41. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

42. The annual performance report was not submitted for auditing and consequently my findings below are limited to the procedures performed in respect of the following selected development priorities as contained in the strategic planning and performance management documents:
- a. Development priority 1: Basic service delivery on pages x to x
 - b. Development priority 2: Municipal Transformation and Organisational Development on pages x to x
43. I assessed the information to determine whether the performance indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).
44. The material findings in respect of the selected development priorities are as follows:

Development priority 1: Basic service delivery

Usefulness of reported performance information

45. The measurability of 100% of the planned targets and indicators could not be assessed due to a lack of technical indicator descriptions and proper systems and processes, as the municipality does not have an individual responsible for the management of performance information.
46. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. The relevance of 100% indicators could not be assessed due to a lack of corroborative supporting evidence to verify management's explanation why the indicators were considered important and relevant to the realisation of strategic goals and objectives.

Development priority 2: Municipal Transformation and Organisational Development

Usefulness of reported performance information

47. The measurability of 100% of the planned targets and indicators could not be assessed due to a lack of technical indicator descriptions and proper systems and processes, as the municipality does not have an individual responsible for the management of performance information.
48. The FMPPI requires indicators to relate logically and directly to an aspect of the auditee's mandate and the realisation of strategic goals and objectives. The relevance of 200% indicators could not be assessed due to a lack of corroborative supporting evidence to verify management's explanation why the indicators were considered important and relevant to the realisation of strategic goals and objectives.

Compliance with legislation

49. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

50. The local community was not consulted by means of a municipal wide structure for

|

community participation in drafting and implementing the Integrated development plan (IDP), as required by section 28 of the Municipal Systems Act and Municipal planning and performance management regulation 15(1)(a)(i) .

51. The adopted IDP did not reflect and identify the municipal council's vision for the long term development of the municipality and key performance indicators and targets; and a financial plan as required by sections 26 and 41 of the Municipal Systems Act, as well as Municipal planning and performance management regulation 2(1)(e).
52. The IDP was not drafted by taking into account the integrated development processes and proposals submitted by the district municipality as required by section 29(3)(b) of the MSA.
53. Performance targets were not set for each of the key performance indicators for the financial year as required by section 41(1)(b) of the Municipal Systems Act and the Municipal planning and performance management regulations 12(1) and 12(2)(e).
54. The service delivery and budget implementation plan (SDBIP) for implementing the municipality's delivery of municipal services and annual budget was not approved by the mayor.
55. The local community was not afforded the opportunity to comment on the final draft of the IDP before adoption, as required by section 42 of the Municipal Systems Act and Municipal planning and performance management regulation 9, 13(1), 13(4)(c) and 15(3).
56. The amendment(s) to the IDP was not adopted by the council only after the proposed amendment has been published for public comment and consultation with the district and taking into account all comments received as required by municipal planning and performance management regulation 3(5).
57. The municipality did not establish a performance management system as required by section 38(a) of the Municipal Systems Act or the Municipal planning and performance management regulation (8).
58. Key performance indicators in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the Municipal Systems Act and the Municipal planning and performance management regulation 1 and 9(1)(a).
59. Revisions to the service delivery and budget implementation plan were not approved by the council as required by section 54(1)(c) of the MFMA.
60. The performance of the municipality was not assessed during the first half of the financial year, as required by section 72(1)(a)(ii) of the MFMA.

Financial statements, performance and annual reports

61. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
62. The 2014/15 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
63. The annual performance report was not prepared for the financial period under review, as required by section 46 of the Municipal Systems Act.

Procurement and contract management

64. I could not obtain sufficient appropriate audit evidence that all quotations were awarded in accordance with the legislative requirements and a procurement process which is fair, equitable, transparent and competitive, as the auditee did not provide us with the necessary information within the required time.
65. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of by SCM regulation 17(a) and (c).
66. Quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
67. The preference point system was not applied in all procurement of goods and services above R30 000, as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
68. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
69. Contracts were awarded to providers whose tax matters had not been declared by the South African Revenue Service to be in order, in contravention of SCM regulation 43.
70. Contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.
71. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

72. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, in contravention of section 116(2)(c) of the MFMA.

Human resource management and compensation

73. An approved staff establishment was not in place, as required by section 66(1)(a) of the Municipal Systems Act.

Expenditure management

74. Money owed by the municipality was not always paid within 30 days, as required by section 65(2) of the MFMA.
75. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure, fruitless and wasteful expenditure, as required by section 62(1)(d), of the MFMA.
76. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors, as required by section 65(2)(b) of the MFMA.

Conditional grants received

77. The Municipal System Improvement Grant (MSIG), Finance Management Grant (FMG), Library Grant and Expanded Public Works Program (EPWP), was not spent in accordance with the applicable grant framework, in contravention of section 17(1) of the DoRA.
78. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant (MIG), MSIG, FMG, EPWP and Library Grant, as required by section 12(5) of the DoRA.

Revenue management

79. An adequate management, accounting and information system which accounts for revenue and debtors was not in place, as required by section 64(2)(e) of the MFMA.
80. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2)(f) of the MFMA.
81. A credit control and debt collection policy was not implemented as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of the MFMA.

Asset management

82. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
83. The municipality did not establish an investment policy that was adopted by council, as required by section 13(2) of the MFMA and municipal investment regulation 3(1)(a).
82. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Liability management

84. An adequate management, accounting and information system which accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.
85. An effective system of internal control for liabilities including a liability register was not in place, as required by section 63(2)(c) of the MFMA.
86. Short-term debt (overdraft) was not repaid within the financial year, as required by section 45(4) of the MFMA.

Consequence management

87. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
88. Irregular, and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Internal control

89. I considered internal control relevant to my audit of the financial statement, and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on compliance with legislation included in this report.

Leadership

90. Although an acting MM has been appointed for the entire financial year under review, there were no Section 57 managers at the municipality for the entire financial year. The leadership instability and breakdown of the internal control structures within the municipality has impacted the operations of the municipality negatively. Adequate policies have not been developed, reviewed and implemented to guide all significant

processes within the municipality.

91. The vacancies in key senior management positions have contributed to the dire situation at the municipality as significant limitations were placed on the audit and measures were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure or investigate this expenditure once incurred.

Financial and performance management

92. The municipality does not have a proper record management system in place to ensure that complete, relevant and accurate information is accessible and available to support financial and performance reporting. This is evident in the number of material misstatements identified in the financial statements and the annual performance report that was not prepared. These deficiencies relates to the collection, collation, verification, storing and reporting of actual performance information. This was due to the municipality not having standard operating procedures in place to ensure that all documentation is properly maintained for performance management.
93. Controls over daily and monthly processing and key reconciliations of transactions were not implemented. There are no processes in place to monitor compliance with all applicable laws and regulations within the municipality. This has resulted in significant SCM non-compliance and an increase in irregular expenditure from the prior period. This area should therefore be prioritised by leadership and management for continued improvement.

Governance

94. There was insufficient focus on, and pre-emptive measures taken to address the emerging risks relating to changes in the environment in which the municipality operates as risk assessment procedures were not adequately performed for the current year.
95. The internal audit unit is not adequately resourced to identify internal control deficiencies and suggest corrective action to be taken because there is only one intern who is assisted by the district municipality.
96. The audit committee did not function for the financial year under review.

Other reports

97. I draw attention to the following engagements that could potentially impact on the municipality's financial, performance and compliance related matters. My opinion is not modified in respect of these engagements that are either in progress or have been completed.

Investigations

98. The Directorate for Priority Crime Investigation is performing an investigation at the request of the municipality, which covers an unknown period. The investigation relates to the suspension of the accounting officer and is still in progress at the date of this report.

Auditor-General

Kimberley

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence